



COMMISSION NEWS

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INVESTORS URGED TO DISCOUNT ONLINE BROKERAGE ADVERTISING

--Arizona Corporation Commission and Securities Division regulators warn of hidden costs, delayed executions, dangers of trading too much--

PHOENIX (December 6, 1999)-With online brokerage firms poised to spend a reported \$1 billion on advertising in the coming year, Arizona securities regulators today warned investors to look beyond the hype and beware of hidden cost, delayed executions and the risk of trading too much.

"It's a cutthroat marketplace and online firms are desperately trying to distinguish themselves with funny and clever ads," said Mark Sendrow, Director of the Arizona Securities Division. "There's no question that online brokerage has reduced commissions and democratized Wall Street, but there's been a lot of hype, too. Investors need to be aware of what those ads don't mention, let the buyer beware," remarks Arizona Corporation Commissioner Chairman Carl Kunasek.

In regards to some of the not readily apparent aspects of online brokerages, Securities Director Sendrow pointed to:

Hidden costs. Behind-the-scenes but legal payments between online brokerages and market makers- so called "payment for order flow" -may reduce the incentive to get the investor the best price when buying or selling a stock. Such payments could cost investors much more than they save on

commissions.

Trading delays. Most online brokerage ads suggest that investors have instant access to the market. They don't. Delays in order execution can result in worse prices. Sendrow urged investors to use limit orders, not market orders, so they can set the price they want when they buy or sell a security.

Trading too much. "When trading on-line, individuals who have researched the market should also be aware of the pitfalls associated with promises of large returns. For every e-mail, there's an e-sucker, where the specific purpose is to separate an individual from his or her money," said Arizona Corporation Commissioner Jim Irvin. "Real wealth on Wall Street isn't made by day traders but by patient investors who buy quality companies and hold for the long term," said Commissioner Mundell, noting that investors can follow this time-tested strategy by using an online or traditional brokerage firm.

Finally, Director Sendrow stated that online brokerages are not for everyone. "You need to take stock of yourself. If you have the time, the temperament and the interest to actively manage your own money, an online brokerage account may be for you. Otherwise, mutual funds or an old-fashioned human broker is probably the way to go."

Sendrow urged existing and prospective online investors to read two new reports, issued this week, on online brokerage services. A report by New York Attorney General Eliot Spitzer described technology problems and bottlenecks that have plagued the industry and urged more disclosure so investors can make better decisions. A report by Commissioner Laura Unger of the U.S. Securities and Exchange Commission suggested that under certain circumstances online firms might have "suitability" obligations to assure that investments are appropriate for a customer based on their age, financial circumstances, goals and tolerance for risk. The reports are available online at www.oag.state.ny.us and at www.sec.gov.

To find out more about online trading or other investment-related topics, visit the Arizona Corporation Commission-Securities Division website at www.ccsd.cc.state.az.us or call the Division at (602) 542-4242.

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